UKSA
UK Shareholders' Association

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## UKSA launches new campaign

This edition brings news of important changes to the UKSA Board and the appointment of new directors who will equip UKSA to take on new challenges. Full details can be found on pages 6 and 7.

The edition also marks the launch of Savers Take Control (STC), a campaign designed to empower individual savers. STC seeks to create political force for change, defending savers' rights and strengthening their influence for their own and for the public benefit.

Why 'savers'? Because savers become investors, for example in an ISA or a pension fund. Why 'control'? Because most people invest through intermediaries, so are less able to control their costs and exercise their rights. In an industry dominated by entrenched and powerful interests, savers need to join forces to drive change.

STC is led by UKSA director Martin White. Martin is a highly respected member of the actuarial profession and a long-standing critic of the UK investment industry. With his breadth of experience and extensive contact network he is ideally placed to coordinate the STC campaign.

Martin's contributions to this edition begin on page 3 with an introduction and overview. They continue on page 12 with a series of short articles focusing on the main aspects of STC and introducing some of the key people who have influenced him and who endorse the objectives of STC.

The timeliness of STC was highlighted in the past week by an investigation by The Times revealing the scale of incentives paid to advisors at one of the UK's largest independent financial advice firms.

There is no suggestion of mis-selling or breaches of FCA rules by the firm, but the article casts light on the importance and complexity of fee generation in the industry.

Headline fees may sound small but can cost savers substantial amounts over the life of their savings.

The example of £100,000 invested for a 20-year period illustrates the dramatic long-term impact of charges of 2% per annum. If the underlying rate of return is 6% per annum, the annual rate of return after the charges is just 4% per annum. That gives a fund of £219,112 after 20 years. But without that 2% charge, the fund would have been £101,602 larger, at £320,714. In other words, around one-third of the entire fund has disappeared in charges. Another way of looking at it is that the total pre-charge return of some £220,000 has turned into a post-charge return of some £120,000.

UKSA has always seen one of its primary tasks as equipping savers to defend themselves against opaque practices and detrimental fee structures.

Another fundamental issue is remuneration. On this subject we are pleased to be able to present an extract from John Kay's submission to the BEIS Select Committee.

*Helen Gibbons*

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# Time to engage the voice of the individual in a national debate

*by Martin White*

**Progress**

After much work and debate we are now ready to move ahead with Savers Take Control (STC).

**Preparation**

It is important to ensure that we are prepared for what happens when we gain public attention, and that we have a strategy for responding flexibly to how things unfold. There has been much challenge from the UKSA Board, as well as reaching out to a number of experts relevant to our two related themes of corporate behaviour and of long-term investment and stewardship of people's savings.

**Independence – our USP**

But our key operating principle is firmly determined, which is for all core STC team members to be completely independent of the investment management, savings and advice chain, as well as independent of the process whereby corporate behaviour (especially executive and boardroom pay) is influenced and led. Almost all media discussion of these matters is by people who are not independent in this way; this is not a surprise, of course, because if you don't work in these areas, you are unlikely to have deep knowledge on them, or to have a need to put time into them. But we are finding people – often retired, no longer conflicted – who have this deep knowledge and share our aims.

**Individuals get ignored – it's as if we didn't exist**

Long-standing UKSA members will be all too painfully aware of how Parliament and policymakers seem to completely ignore individuals, whether as direct or indirect investors (most of the population are indirect investors) when it comes to discussion of corporate behaviour and motivation. The engagement is predominantly with institutional investors, and there seems to be no concern felt in Parliament about the way in which the nominee system has disenfranchised most individual shareholdings, in spite of representations over the years from UKSA, from ShareSoc and from Minerva/Manifest.

**Names on register**

The loss of the beneficial owner's name on company registers exposes us to material loss of title risk, which is not properly covered by any compensation scheme, and we have no right to automatic communication from companies, to voting or to attendance at company meetings. Yet we are the one class of owner who are investing our own money as individuals. This is a disgrace that we should no longer tolerate.

But is anyone going to listen? Why should they? Never underestimate the power of the establishment. There is admittedly some activity, with the Law Commission having this issue on its agenda, but the progress is glacial at best. We have no confidence that vested interests will concede the placing of names on company registers.

**We need to engage the voice of the people if we are to have an impact**

But if we can harness public opinion behind a momentum for change, the game changes. Suddenly politicians listen.

This is where the STC dual track of two work streams comes in – corporate behaviour on the one hand and changing the balance of power in relation to investment services in favour of individual customers on the other.

**Executive pay**

There is one thing guaranteed to attract media and public attention, and consequently name recognition, to STC – and it is corporate greed/executive pay.

The arresting message we will send out in relation to corporate behaviour, especially executive pay, is along these lines:

• We believe levels of executive pay, especially of chief executives, are too high in many companies – and that the issue will never be tackled decisively unless the voice of the ordinary individual is brought to bear. That is one of the aims of STC.

• Transparency has led to top pay ratcheting upwards whilst earnings remain generally flat.

• This indicates that the situation has been captured by those people who are in and around the boardroom. This is not in the long-term interest of employees, competitiveness or even future pensioners relying on the profits of the future.

• Pay and corporate priorities are focused on one thing – the share price. This is a big mistake and has many causes. One of the important causes is the way the financial sector operates. The financial sector operates in the interest of its participants rather than that of its underlying customer, the individual saver. See the article on page 18 (Daniel Godfrey story)

• Things will only change if the informed voice of the individual is brought to bear. That means engaging individuals across the country in the discussion – but whom can they trust in such a discussion?

• Which is where STC comes in. We are gathering a core set of volunteer experts, who are not conflicted in either the executive pay world or the financial sector, to inform and lead a national

discussion.

• This is an ambitious project, and we cannot predict how things will unfold. A lot depends on who comes forward to help us. We do know that it is worthwhile and we ask anyone who is interested, especially representative organisations in civil society, to contact us.

**We will be a unique, well-informed "who to trust" voice**

This is about talking and listening to everyone, not just those interested in investment. This is a deliberately populist message – why shouldn't people feel that they have a right to an opinion and that their voice has the power to change the way companies are run? What we have to do is to trigger, encourage and – importantly – inform the discussion.

Here we get to that vital informed independence of STC and our current and future volunteers. We have already made contact with relevant parties across the political spectrum. We cannot be influenced by lunches, sponsorship, advertising or anything else to tone down the message. The quality of our material needs to be first class and our message must be well informed, thoughtful and conveyed in a professional manner.

We have to listen. We can't claim to know all "the answers" to the problems of the entire investment and ownership chain, and it is important that we don't try to reach conclusions too quickly. That's what politicians tend to do – they are in a hurry, they have the electoral cycle to worry about, and "we must do something, this is something, let's do it" is not the trap to fall into.

**What we'll do**

Exactly how everything unfolds will depend on the reaction we get to our first press release. One of the messages will be that we are looking for appropriate people to join the core STC team. My two presentations to the Transparency Task Force in 2017 and to an academic actuarial conference at Liverpool University in 2019, which can be found here, both make this very clear. "Actions" can be articles published in various places by STC team members (we have a mass of relevant topics), articles by well-known opinion formers and journalists and of course the occasional meeting. Incidentally, it's important that meetings don't put a financial strain on UKSA – they would typically be modest and self-financing with a small charge for attending.

**Intellectual heavy lifting**

There is lots of work ahead. But good news! A great deal of essential thinking across both work streams, especially regarding the diagnoses of the problems, has already been done, providing a very sound intellectual base to draw on. In both of the presentations mentioned above I refer to work by John Kay, for example.

On page 18 I discuss a number of useful and very accessible books, documents and videos that are freely available. But it's quite uncanny how a number of John Kay's books could almost have been written with our STC project in mind. John Kay has been a friend to UKSA over the years, and gave a presentation some years ago at a conference we held in Bournemouth on his then new book "The long and the short of it". The subtitle of the book is "a guide to finance and investment for normally intelligent people who are not in the business".

Two other highly relevant books by John Kay are "Other people's money" (OPM) and "Obliquity". OPM is exactly what you would expect: it's about how the financial sector works. "Obliquity" is rather different – it shows how complex goals can be best approached indirectly. And this very much informs how we think about our STC project and the complexity of the system that we want to help people to understand and influence.

**The opportunities for UKSA's member network**

STC will give UKSA much wider name recognition and is likely to attract significant numbers of new ordinary members to UKSA. In comparison, we don't expect ever to have more than a few handfuls of non-conflicted experts forming the core STC leadership team. For most of UKSA it's going to be business as usual, albeit with perhaps a little more buzz to our activities.

But STC will provide opportunities to extend the range of discussion topics at UKSA member meetings around the country, and increasing numbers of members may help us to have meetings at more venues.

One of the things we know many members enjoy is sharing their knowledge. If we attract new members who join more because they wish to learn about investment than simply wishing to be part of a network of existing knowledgeable investors, that will provide all sorts of opportunities for growing the membership of the future, and potentially for being part of a new world in which financial empowerment is extended to a much larger proportion of the population.

STC

**Editor's note**

From page 12 Martin sets out further details of STC and focuses on a number of specific themes. The articles concerned are marked with a red flash in the top left corner.

## Save the date!

UKSA will hold its AGM at 2pm on Monday 11 May. The venue will once again be the RAF Club, 128 Piccadilly, London W1J 7PY

# Calling all UKSA members who hold shares in Sirius Minerals

As members who bought shares in Sirius Minerals will know, in early January the Company received a takeover offer of 5.5p a share from Anglo American, valuing Sirius at almost £386m. However, many Sirius investors who originally paid more than 20p for their shares feel the offer is too low. ShareSoc is running a campaign to try and get a better deal for private shareholders. UKSA is supportive of the campaign and, although both UKSA and ShareSoc believe that it may be a long-shot, we also believe that it is better than standing by and doing nothing.

ShareSoc met with Sirius CEO Chris Fraser, Chairman Russell Schrimshaw and others on 4 February.

A meeting with Anglo and representatives of ShareSoc's Sirius campaign was scheduled for 10 February.

Sirius investors who wish to play an active part in the campaign can do so by writing to their MP urging action. You can use the Sirius Template letter to MPs on the UKSA website here. Please add your personal details and then e-mail the letter to your MP. You can use Google "find my MP's e-mail" to obtain his/her address or use this link https://www.parliament.uk/get-involved/contact-your-mp/

There has been good press coverage of the campaign, which has helped to raise the profile. Good links have also been established with several journalists.

In the meantime we shall keep you updated as the campaign progresses.

Finally, the Sirius takeover also highlights the way in which those who hold their shares through a nominee are disadvantaged by the inability to receive communications about the takeover from both Sirius and Anglo and to vote. UKSA and ShareSoc have written to the Law Commission about this in connection with the Commission's review of intermediated securities. Copies of our letter to the Law Commission and the prompt and positive response we received can be found can be found here and here.

## Social media

Over the past month UKSA's Twitter account has covered stories such as the FRC, corporate governance box-ticking, short-termism, adviser incentives, proxy advisers and more besides. Follow us at @UKshareholders. You don't need to sign up to Twitter to view. Just go to https://twitter.com/ukshareholders from any web browser.

# Board changes at UKSA – your opportunity to make a difference

*by Colin Colvin*

As our strategic plan for the next three years and beyond nears completion and enters a stage of implementation, I and two other directors will be stepping down from the Board at our AGM on 11 May this year. Peter Parry and Rob McDonald, after many years of exemplary support and valuable work connected with Policy and Membership matters, will take a different role, supporting Board directors in specific areas of activity within their expertise.

It has been a privilege to chair UKSA over the past year and I have enjoyed being part of an organisation of knowledgeable and committed members led by a dedicated, enthusiastic and highly competent Board of Directors. I was appointed at a time when the organisation was seeking to review its strategy and develop a plan that would benefit its membership and improve the effectiveness of its purpose of 'providing an independent voice - standing up for private shareholders'.  I am delighted to have led the strategic review of this challenge.

After reviewing our options it became clear that we had decided to build on our culture and to focus our activity on areas of campaigning, membership meetings and education whilst seeking to widen our horizon beyond our traditional membership base through the introduction of Associate and Student membership arrangements, building upon work done in the Savers Take Control programme and HonestMoneyNow website. The intention is to forge a closer relationship with several other organisations and like-minded champions to provide a stronger voice to government and influential financial commentators whilst expanding further the type of services available to UKSA members.

I regret that I am unable to devote the time necessary during 2020 and beyond to implement these exciting plans as I have other interests that I wish to pursue, but I shall continue with my membership, support the Board in specific areas and follow the progress of UKSA with much interest.  I shall always be grateful for the support that I have received from Directors and members.

Already new blood has been introduced to the Board with the appointment of Dean Buckner and Malcolm Hurlston.  Engagement with membership will receive a high priority and Regional Chairs have been invited to Board Meetings to contribute to the decision-making process. But I would urge any member who feels that he or she would like to be at the forefront of UKSA's ambitious plans to contact myself or any director to indicate your interest in joining the board. This is an important and exciting time for UKSA.

My best wishes for the future,

Colin Colvin
Chair

## More from YouTube

**Harry Braund** has created more videos explaining the key principles of investing, drawing on his 50-plus years as an active investor.

Click the thumbnail on the right to learn about four characteristic features of hedge funds. Check out the other videos too, and don't forget to subscribe and give Harry a like.

# Additions to the UKSA board

We are delighted to welcome two new members to the UKSA board:

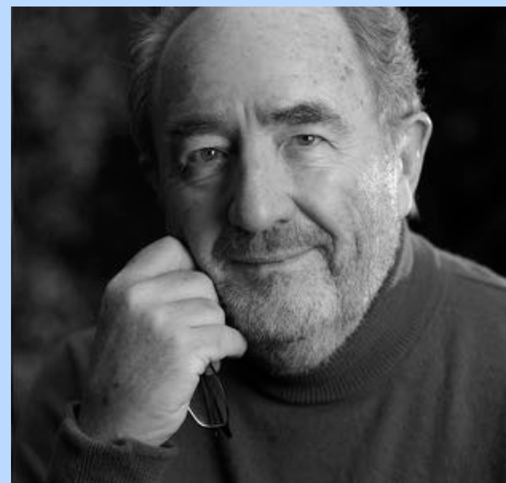
## Dean Buckner

Dean Buckner recently retired after working at the Financial Services Authority (FSA, the predecessor to the current regulator, the FCA) and then the Prudential Regulation Authority (PRA) and Bank of England for nearly 20 years. He specialised in derivative and asset valuation and capital modelling in both the banking and life insurance sectors.

Most recently, working with Professor Dowd of Durham University Business School, he has been instrumental in strengthening the capital adequacy rules applying to institutions holding equity release mortgages. He plans to be an energetic addition to the policy team.

## Malcolm Hurlston

Malcolm Hurlston CBE had a career as an international lobbyist, advising a wide range of blue chip companies in many countries. In 1988 he founded the Employee Share Ownership (Esop) Centre and only recently stepped down from its full-time management. He remains as Chairman and the voice of employee shareholders. He chairs the Financial Inclusion Centre and has founded several other social enterprises. During his early career he made ends meet by freelancing as a writer and as a DJ for the BBC Serbo-Croatian service.



# Meeting with Sir Ewan Brown

*by Peter Parry*

My wife is an avid reader of The Times and it was she who spotted a letter sent in by Sir Ewan Brown on 27 November last year. The letter was a response to an article in The Times on 25 November: 'Companies left in lurch as auditors drop clients'. Sir Ewan accused the Big Four auditors of 'cowardice' in their preference for 'walking away' from difficult situations rather than having the guts to face up to these companies by reporting issues as they arose and, if necessary, qualifying their accounts. In this particular case it was Grant Thornton's decision to resign the audit at Sports Direct which had reignited the debate. Sir Ewan's letter was all the more compelling because he is a chartered accountant, a former director of the merchant bank Noble Grossart, former Chair of the Audit Committee of Lloyds Bank (2001-2007), was senior governor of St Andrews University until 2016 and a non-executive director of Stagecoach Group from 1988 to 2019.

The true scale of the auditing scandal is worse than the latest volley of criticism and justified indignation from The Times and Sir Ewan might suggest. As at least one member has pointed out, it has been too easy for auditors to walk away from an audit client without even having to give meaningful reasons as to why they are doing so.

Malcolm Howard has raised this issue with the FRC in connection with Tex Holdings. On 15 April 2019 the Company announced that it had made a modest loss due to a change in accounting standards and that, as a result, there would be no dividend and the Company was in breach of certain banking covenants. The share price fell sharply. Fourteen days later, on 29 April, Tex announced that it had agreed with its auditor that the shortfall in revenue was not due to changes in accounting standards. Furthermore, as it could not produce accounts within four months of its year-end the shares were suspended.

None of this is very satisfactory, but the real shocker was to follow. Looking through Companies House records Malcolm discovered that on 31 October 2018 the company's auditor BDO LLP had resigned. In their resignation letter they wrote, "We confirm none of the reasons for us ceasing to hold office and no matters connected with our ceasing to hold office need to be brought to the attention of members or creditors of the company."

When Tex Holdings finally lodged its 2018 accounts with Companies House its new auditors, Scrutton Bland LLP, issued a heavily qualified report saying that they:

(1) Could not confirm that the company had kept proper accounting records;

(2) Could not confirm the value of inventories, which they suspected were overstated;

(3) Had identified serious issues that made it doubtful whether the company could be described as a going concern.

Given that auditors' willingness to challenge and stand up to their clients is a hot topic, plus Sir Ewan's impeccable credentials, it seemed appropriate to go and see him. UKSA Chairman Colin Colvin and I met him at the Institute of Directors in Edinburgh in mid-January. We had a very convivial meeting discussing the problems inherent in current approaches to accounting and financial reporting. Did Sir Ewan think they could be fixed and if so how? He was doubtful. Reporting had become so complex and fair-value accounting had opened up so many potential loopholes that it was difficult to see how many of the current problems in financial reporting could be easily resolved. He was, however, adamant on one point: a company's cash position was what mattered. It was always worth spending time analysing a company's cash flow statement and looking for anomalies.

We also discussed recent company failures, including Carillion, Thomas Cook and Patisserie Valerie. Sir Ewan was dismissive of the effectiveness of the regulators responsible for overseeing company reporting. We agreed that in the past this had been seriously deficient. Sir Ewan added that, in spite of Sir John Kingman's review of the FRC, the CMA's recommendations on competition in audit and Sir Donald Brydon's recommendations for reforming audit, he doubted whether much would change. We said that we were less pessimistic than he was. There are signs of change taking place and, although so far limited, they are better than nothing and are very welcome. We did, however, agree that there was a real risk that current government focus on Brexit risked distracting attention and diverting Whitehall resources from the task of reforming the regulatory regime surrounding audit. This was a warning that Sir John Kingman himself also raised in a letter to the FT on 23 December.

We spent a convivial two-hours discussing a range of current business issues and probing some of the more complex audit and accounting conundrums facing investors. We finally broached the issue of whether Sir Ewan would be interested in becoming involved with UKSA. Sadly, the response was a firm no. At seventy-seven years of age and with plans to relinquish a number of his current responsibilities, retirement beckons. And this time 'retirement' really does mean 'retirement'.

# Policy update

A great deal of UKSA's policy work is not immediately visible to members. We are keen to keep members informed of the work of the policy team, led superbly by Peter Parry, often in cooperation with ShareSoc.

- Lifting the Lid on the FRC: The event held on 5 November 2019 received very good feedback and a similar event is planned for November this year.
- Law Commission: UKSA and ShareSoc responded jointly to the consultation on intermediated securities (see details here).
- PwC – Environmental reporting: A successful event was run by PwC with UKSA and ShareSoc on 27 November 2019.
- Cyber security: UKSA Director Sue Milton filed a detailed response to the Call for Evidence for the Cyber Security Incentives and Regulation Review 2020.

# Aston Martin

*by Peter Parry*

UKSA regularly gets requests from journalists to comment on companies that have been in the news. In early January the FT asked us to give our view of how Aston Martin has traded since its IPO and its failure to meet its targets. Unfortunately, no one was available to comment before the FT's deadline, but it would have been an interesting conversation.

Personally I cannot understand why anyone would have invested in Aston Martin's IPO in the first place. Even before details were finalised in the autumn of 2018 there were signs that investors were being taken for a ride. The main purpose of the float seemed to be to allow the Company's Italian and Kuwaiti owners to offload £1 billion of shares at the highest possible price. Not a penny was raised for the business. Another straw in the wind was the fact that the share price had to be cut from £22.50 to £19 to get the deal away. Even this discount left the valuation for Aston Martin, at £4.5bn and an enterprise value of 24 times ebitda, looking stretched compared with peers like Ferrari. Then there were the suggestions that the dealerships were being stuffed with stock ahead of the IPO to boost the sales figures in the short term. So, no prizes for guessing why cars delivered to dealers fell by nearly 10% last year while margins collapsed from over 22% to around 13%. As if all this was not enough, there was the imaginative decision to capitalise R&D.

So here we are in January 2020 with a share-price depreciation of about 75% in under eighteen months and indications that there could be worse to come. The DBX SUV may boost sales temporarily, but this is a crowded market with Jaguar Land Rover, Audi, BMW, Bentley, Porsche and Rolls Royce already in there and fighting for sales of top-end vehicles.

Investors would have done better to go down to their local Aston Martin dealership in 2018 and buy one of the cars. They would have got the same return and had more fun. Do just remember that these things are rarely 'alternative investments'.

As Mrs Moneypenny is fond of saying of her children, they are 'cost centres'. That is certainly true of the cars and with predictions of a further cash injection being required it could be true of Aston Martin shares as well.

# Selecting ethical or sustainable investment funds

*Dr Quintin Rayer*
*DPhil, FInstP, Chartered FCSI, SIPC, Chartered Wealth Manager*
*Head of Research and Ethical Investing at P1 Investment Management*

**Biography**

Quintin has worked for actuarial and investment consultancy firms and a multi-national European bank, including wide experience in quantitative fund and risk analysis. He is a Fellow of the Institute of Physics, a Chartered Fellow of the CISI and a Chartered Wealth Manager. Quintin has applied skills gained from his Oxford University Physics Doctorate and while working in engineering to finance. He is the second UK graduate from the Sustainable Investment Professional Certification (SIPC) programme and joined P1 Investment Management in January 2017, founding their ethical and sustainable investing proposition.

**Introduction**

Previous articles asked why ethical investment matters [1], introduced sustainable (environmental, social and governance, or ESG) investing [2]; and looked at some different approaches [3], [4]. As a change of perspective, this article considers the selection of ethical funds, outlining some of the challenges that investors face. Future articles intend to explore topics such as performance.

Beyond the usual portfolio construction considerations, ethical investors must select companies and monitor their performance in ethical and sustainability terms. Whichever approach is used, environmental issues, social responsibility and governance quality are not readily measurable. Consequently, many investors employ the skills of specialist fund managers. This, in turn, raises questions as to how investors can be sure that the fund managers they select are genuinely investing as their clients would wish. Investors wish to be confident that the managers they choose have robust ethical and sustainable investment policies, rather than using a green gloss to obtain a marketing advantage.

**Ethical funds**

Many fund management houses run ethical strategies, with more being offered as the approach gains popularity. While some managers are specialists, others include ethically orientated funds as part of their broader offering.

A concern for investors is whether fund managers lack ethical investing experience or commitment, but want to 'jump on the bandwagon', launching a fund to appeal to the ethical market. Although promoted as such, a fund's ethical credentials may be slender, potentially including holdings that would make clients uncomfortable. Some funds may only underweight investments in undesirable areas rather than avoid them altogether. Others may focus on engaging with company boards, rather than restricting their investments.

Providers may launch new ethical funds but fail to reach required asset targets to make them commercially viable. Insufficient investment in resources or appropriate staff could result in an inability to deliver the performance expected, with a gradual erosion of interest. Consequences could include a merger with a conventional fund, closure, or dropping ethical objectives.

Fund selection should explore how deeply embedded ethical investing culture is in the organisation. Managers may find clients like to hear them talk positively about ethical investing, doing so for marketing benefits. Examining staff experience and qualifications can help detect superficial commitment since only serious providers are likely to have invested in individuals with proven knowledge and skills.

**Portfolio construction**

It is useful to appreciate the challenges facing managers constructing ethical portfolios. When considering a company for inclusion, apart from return, risk and diversification aspects, ethical requirements must be considered. Although some criteria are straightforward, others can be more complex.

Managers are assisted by corporate standards, covering diverse areas. Many are voluntary, confirming that specified activities have been conducted to a defined quality. The sheer number of different standards can be challenging, and requirements vary. However, some standards provide more symbolic than real value [5]. Initiatives motivating companies to behave more responsibly include auditable quasi-official standards, initiatives encouraging companies to report emissions, achievements and progress to stimulate improvement; but may also be purely aspirational.

Companies' annual reports and accounts can reveal ethical, sustainability, social, environmental objectives and standards, as well as information about corporate governance [6]. Governance can explore the nature and composition of the board. This can include the roles of NEDs, turnover, expertise, independence, diversity, ability to challenge executives, the remuneration committee and level of shareholder engagement.

For those fund managers that engage with company boards, the quality of their engagement can be challenging to assess, as well as their commitment to persistently follow up on areas of concern. As shareholders, many use proxy voting, but not all have a defined voting policy, and fewer ask questions at shareholder meetings or file shareholder resolutions. Fund managers with stronger engagement practices will discuss their decisions pre and post voting. At one extreme, some will propose policies to link director remuneration to issues of concern. In contrast, others will outsource voting to external commercial providers. All would claim they use engagement to meet

ethical goals, while the quality and commitment vary considerably.

Investors must dig beneath ostensible statements regarding achievements, since many companies desire a ‘green makeover’, but may be reluctant to absorb the costs and challenges required for genuine change [7]. The complexity means that investors may benefit from support by wealth managers knowledgeable in this area.

**How this helps Investors**

By appreciating the challenges ethical fund managers face, individuals who wish to invest ethically should be better placed to understand the strengths and weaknesses of products offered. It can be difficult to assess the fund managers’ commitment and the robustness of their ethical investment policies. A better appreciation of what is involved should help them choose an approach or provider that meets their needs.

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# Inheritance tax – More ideas!

*by Roy Colbran*

Hot on the heels of the report from the OTS for simplifying the IHT regime we now have proposals for a far more drastic review. These come from the All-Party Group on Inheritance and Intergenerational Fairness set up by the Chairman, John Stevenson MP, to consider the subject. At the time of publication the Group had as Officers two Conservative and two Labour MPs.

Newspaper headlines on publication concentrated on the suggested reduction in the tax rate from 40% to 10% leading to the natural thought that the Treasury would never wear that. However, closer examination of the report shows that there are plenty of places where the tax take would increase to compensate.

The evidence base that the Group drew upon was much narrower than that used by the OTS. Possibly that does not matter since the proposals are so radical that there is no need for details of the problems that the present system causes. Moreover they had the benefit of the OTS report in front of them and the support of the Society of Trust and Estate Practitioners, who must have loads of experience.

The main proposal is that there shall be immediate tax at the same rate on both lifetime and death gifts. For lifetime gifts there would be an annual tax-free allowance; the Group suggests this should be as much as £30,000, but the value of all gifts in excess of this level would attract a tax of 10% payable by the donor. For non-liquid assets there would be an option to pay over 10 years subject to interest. There would be a death allowance, transferable between couples as at present, at a level something like the current Nil Rate Band but no equivalent for lifetime gifts. The great advantage of this system would be that it would do away with the need for all the complicated reliefs that apply at the moment. These include the seven-year rule, normal expenditure relief and tapering as well as the special residence nil-rate band. Agricultural and business allowances would disappear as would reservation of benefit rules and so, overall, the system would become much simpler and more understandable.

Discretionary trusts would still be possible with gifts into the trusts taxable in the same way as for individuals. There would then be an annual tax based on the value of the assets in the trust and the Group mentions the possibility of further tax on distributions, although that feels like double taxation to me.

As regards the rate itself, the Group says that it is must be low enough to be broadly based and not need complex reliefs. They also see it as crucial that it is not so high as to make people think they need to plan to reduce the potential tax. In this connection they quote evidence that anything over 20% causes such reactions but also mention the possibility that the rate might go up to 20% for estates over £2 million.

The paper draws attention to the OTS's reporting that due to all the various reliefs large estates pay, overall, a much lower effective rate than smaller ones. Thus for estates in excess of £10 million the average rate of tax collected is a mere 10% at the moment and they suspect that such estates save even more by lifetime giving. They want these estates to pay their fair share.

One essential feature of the Group's proposals is to abolish the "step-up" for capital gains tax that occurs at present on death. Assets would then be inherited at the original base cost and the recipient would, on eventual sale, pay CGT related to that original cost. If the executors sold they would presumably be liable to CGT immediately. The Group even suggest the possibility of extending this to Principal Private Residence relief. They argue that this relief is there so that people can move house and, of course, once deceased they no longer need it. ISAs are not mentioned.

One of the various advantages claimed for the Group's approach is removing the problem that Executors have in finding out what gifts the deceased had made within the last seven years (and in certain circumstances the last 14). Unfortunately their proposals bring what could be an even worse problem for the executors in establishing the base costs of assets handed over. My own experience of one particularly messy estate tells me that this could be quite impossible and there would have to be some arrangement for people who could not establish the base cost.

As regards the Private Residence relief it would certainly produce an inequality between an estate where the deceased had remained in a family home until death and one where the deceased moved out, possibly downsizing or going into care, a relatively short time before. The latter would have, and presumably keep, the full advantage of the relief whereas a house that had been in the family for many years would be likely to result in a very significant amount of tax. That's one thing the Group does not seem to have thought of.

Charitable gift exemption is seen as of great importance and to be retained. However, with the much lower rate they see no need to keep the rule whereby the rate is reduced if 10% or more of net estate is left to charity. The OTS report commented on the number of cases where variations of wills are sought to take advantage of the 10% rule. This leads me to wonder whether a saving in tax of only 10% will give people the same incentive to leave to charity. One consequence would be to make lifetime giving more attractive than legacies from a tax point of view with the operation of Gift Aid, especially for higher rate taxpayers.

The report includes numerous worked examples showing the effects before and after and a long section on alternative methods of taxing capital and reducing inequality. These include material about the experience of other countries and demonstrate the thoroughness with which the authors have approached the subject.

So what are the chances of this coming into effect? We now have two sets of proposals for dramatic change and a new Chancellor. One commentator suggested that the proposals might well be acceptable because they were so simple. (But did the Treasury ever do anything simple?) It's good timing in that the Chancellor has at least the opportunity to make reference to his first thoughts in the budget speech. Surely something must happen and it cannot be a good moment to indulge in elaborate IHT planning.

STC

# Encouraging the investors of the future to join UKSA – the value of a trusted network

The core interest for UKSA members has always been individual shares. However, the financial sector strongly pushes people into investing in collective funds of all kinds, for a simple reason – they make more money from funds! And some collective approaches are much better value than others. For many years now, because of the nominee system, people selecting investments in individual companies are no longer treated as shareholders, being anonymous to those companies. Whereas a few decades ago, individuals with money to invest were generally advised to buy shares, that is no longer the case. We urgently need to get more younger people into investing!

The financial advice sector and the investment management sector have done very nicely over recent years with the message "it's all too complicated for people to think for themselves, so just buy our "products" – and our population has become less financially empowered as a result. Which is where UKSA comes in. We are committed to increasing the number of people with the confidence and ability to invest in shares, as a part of a sensible overall strategy for their life's finances. The level of financial capability in the UK is not good, and has not really been improving in spite of some well-intentioned effort by recent governments. What we do will not quickly and directly help the majority of the population; our immediate appeal is naturally to those that can see that they are going to have money to save and who realise the need to do so, but also realise that they need to learn a lot. We do believe nevertheless that some of the material we develop will be useful for financial capability more generally, and we will ensure that the more fundamental material is freely available to anyone. Our HonestMoneyNow website is publicly available, for example.

# Changing the world of savings and investment and driving a change in company behaviour

Savers Take Control (STC) is a new voluntary movement of UKSA members which is completely independent of both the financial sector and the vested interests in the corporate sector. Our aim is to share our knowledge freely in a way that encourages much better and deeper financial education throughout society. To put it simply, we want to fill the "who to trust" gap when it comes to financial affairs. We have been developing the concept for a few years and are now ready to seek more publicity.

At the heart of STC is a small core team, which we need to expand, of non-conflicted people with deep financial and investment knowledge that are in a position to contribute that knowledge freely to help society as a whole.

We believe this is a completely new departure, and it will not just involve the membership of UKSA; we intend to bring into our thinking a much wider range of people, and to publish material for public consumption and discussion. Long-term saving for retirement is relevant to everyone, and it is important to recognise that your pension pot is ultimately invested in industry, and the profits of industry will heavily influence the amount of pension available when the time comes to take it. So we are almost all of us shareholders, whether or not we realise it.

**The problem**

The question of how much profit is generated over the long term in businesses is only the first hurdle on the way to our pensions. The second hurdle is how much is extracted by the management in bonuses and in other ways. And the third, and widely under-appreciated, hurdle is how much is extracted by the financial sector. So now you can see why we insist on our core expert team within STC being completely independent of the financial and corporate sector!

But generating those profits and protecting them from intermediation is not the whole story. Existing UK company law is actually quite sensible, as there is specific mention of companies having regard to other stakeholders. In practice, insufficient attention has been paid to this, though expectations are rapidly changing as climate change and environmental issues have risen up the national agenda.

So how, recognising that most of us are shareholders, even if we don't realise it, do we all think our companies should be run? Shouldn't we have a say through the savings that are managed on our behalf? Is it all about maximising immediate profits and maximising share prices today? And paying massive bonuses to executives when they achieve this? Or should we care about what it's like to work in a company? About the opportunities it offers for its employees to develop and get as much satisfaction as possible? About investing to ensure the company's survival in a competitive world, to deliver both jobs and profits in the future – and consequently for shares in the company to be a viable investment for pension funds?

Clearly, all this is vital – and yet… Where is the informed voice of the individual in the corporate world? We would argue that it is essentially absent. Is there any discussion of the principles that those managing our pension funds should implement on our behalf? And the situation has got worse, as the nominee system means that the small number of individual shareholders who speak up at company meetings is dwindling fast. Paul Myners coined the term "the ownerless corporation" to describe the situation. You can find a lecture he gave in 2018 entitled "in investment how do we define long term?" that explains this idea and its origins at https://www.youtube.com/watch?v=9nYJExU9Tn4 .

**Financial capability**

Next: how well does our society measure up on financial capability? Not so good, most will agree. The question is how to help. We believe that people are better able to engage with their finances than they realise. But an unfortunate fact of life is that it is not in the interest of the financial sector that we all understand, for example, compound interest and the long-term impact of charges, so there is and will always be a problem here.

Today, the financial sector is the real power in the land. It has huge lobbying power and influence over the official channels of Government, regulation and also massive media capability. Savers Take Control is all about tackling that from the grass roots – it is about knowledgeable and non-conflicted savers and investors helping each other and society as a whole from a position of complete independence.

We want to change the balance of power. In almost all walks of life, the customer is king, but for financial services this is typically not the case. Product "innovation" in financial services is normally about finding another way to make profits by complicating the product. But if the customers were able to work together to circumvent existing providers, or just to share amongst themselves information on the true costs of comparative products and services, that could shake things up dramatically.

**The challenge**

Not a simple story… But to change something you have to understand thoroughly where you are today, and how things operate today, and then work out where you can start to apply pressure to change things. It's not going to be easy to move from today's world to where we would like to be. It's not going to be quick either. But every little step in the right direction is worth taking.

Whilst we are keen to attract lots of new members who are already interested in investment and who will welcome the opportunity to meet with others with similar interests around the country, and to learn from each other, we are not in a hurry to build UKSA into a massive organisation. Running a voluntary organisation is harder than running a business; you have to move steadily and take people with you. Our plans will evolve as we go, and crucially, what we can

do will depend on new people coming forward to be part of our small core STC team.

Much of our time in the core team initially will be in discussion amongst ourselves, developing written material which can form the base of a public information campaign and developing a consistent set of messages for the media. You have to be the sort of person who will enjoy this, and to whom collaborative working comes naturally. We are confident that there are a number of people who have already drawn the conclusions set out here, and who will welcome the opportunity to join in – they just have to hear about it.

Whilst, as I explain above, how we develop will depend upon the new recruits we manage to attract to the core STC team, the kinds of activities we envisage include the following. Some are possibilities for the short term, and some are for the much more distant future:

• Getting the STC story itself into the media;

• Freely available articles discussing the many controversial topics that are relevant to our campaign, and engaging with interest groups relevant to each topic;

• In the longer term, we would like to influence the way in which concepts essential to financial capability are taught in schools, and also to develop teaching material that can be used more widely, for example in evening classes;

• Recruiting new members to the UKSA network.

Interested in digging a little deeper into the ideas behind STC? Keep an eye on the STC pages of the website and/or contact us to express interest.

# Making the best use of our discussions and meetings – by sharing questions that arise

As our band of diverse volunteers grows, and as we attract new members keen to learn more about investment, identifying questions becomes as important as giving answers and explanations.

We should encourage each other to share not just what we know, but also what we don't understand and what we suspect we should. If this kind of discussion occurred more in boardrooms, our companies would do a lot better, but it's completely relevant to what we must be to be successful and to make the difference we think we can – a learning organisation, freely sharing its learning with anyone who is interested.

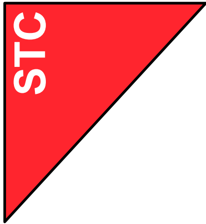
So when there are member meetings, if the opportunity arises, do make notes of any big questions that it would be nice to share with others, because the discussion could be valuable to any of us. And it's almost a case of "the more stupid you feel the question might be, the more important it is to share it". And share the questions and ideas with the Editor, who will be able to farm them out to the right people.

It's not always simply a question such as "we don't think we understand X well enough". Just as important can be: "we think we understand Y, but have a lot of trouble explaining it to new members". For those of us who have spent a lifetime steeped in thinking about financial stuff, it can be really hard to appreciate just what others find hard to grasp, so we need bringing down to earth now and then.

Do have a look from time to time at our HonestMoneyNow site, which was developed from scratch about 15 years ago by John Hunter, out of frustration at how people were treated by the financial sector. All feedback, especially ideas identifying gaps and how to improve it, will be gratefully received.

Something I plan to start experimenting with over the next year is to give occasional talks to university students, to introduce them to the importance in their careers of being able to look at things from the point of view of an intelligent owner of the business they are working in. From this will come all sorts of questions from people eager to understand the challenges of investment – all of which should help to liven up UKSA still further.

On the opposite page **John Kay,** one of Britain's leading economists, has kindly given us permission to quote from his written evidence to the BEIS Select Committee. The full evidence can be found at https://www.johnkay.com/2017/01/16/corporate-governance-beis-select-committee-written-evidence/




# John Kay on remuneration

The notion that, in addition to the salaries they receive for performing their duties, the senior executives of companies need to be incentivised to fulfil their duties to promote the success of the company is one which would rightly be regarded as insulting in most other professional contexts. And people who do need such incentivisation are mostly not appropriate holders of posts which carry heavy and wide-ranging responsibilities. The theory that share options and related bonus arrangements would align the interests of shareholders and senior executives has proved to be wholly false: such remuneration arrangements are today the principal source of friction between boards and shareholders.

The rise in – particularly – CEO pay relative to that of other employees is well documented, and indissolubly linked to the growth of supposed performance-based remuneration. While these incentive schemes are unlikely to have much effect on the quantity of effort directors put into promoting the success of the company, they do direct management attention to whatever metrics are used to determine performance-based remuneration. Even the metrics which are included in so-called long-term incentive plans generally involve much shorter time scales than those needed to create sustainable competitive advantages in business. Moreover, where these incentive schemes fail to pay out, it is (correctly) pointed out that they are failing to fulfil their ostensible purpose (incentivisation) as they fail to fulfil (ed: or succeed in) their underlying purpose (increasing the overall scale of executive remuneration).

The state of executive remuneration in the UK today is a mess, whose results are damaging to the proper stewardship of companies and the perceived legitimacy not just of corporate governance but of corporate organisation itself. By its implication that at all levels of society financial rewards are an overriding motivation the bonus culture is potentially corrosive of a social order based around a market economy. Worse, some steps aimed at resolving the problem may have made matters worse. Transparency is not necessarily a virtue: what Board can properly determine that the pay of its chief executive should be in the bottom quartile, but a quarter of Boards must necessarily do so. The increased role of remuneration committees may have provided legitimacy to excess rather than control over it.

It is appropriate (or at least not necessarily inappropriate) that exceptional performance should be rewarded, in the boardroom as on the shop floor. However bonus as reward is distinct from bonus as incentive: such payment should normally be discretionary, non-formulaic, and awarded after the event. And reward for exceptional performance is, by its nature, exceptional.

Shareholder say on pay has forced boards to discuss remuneration schemes with major shareholders, with some beneficial effects both in controlling levels of remuneration and removing the more egregious features of incentive scheme design. Much of this effect is below the radar – remuneration committees are increasingly mindful of what shareholders will accept without demur. As a result, while strengthening say on pay provisions would do little harm it might do little additional good. Since data on pay ratios is already readily available from disclosures in listed company accounts, and tables are published by the proxy service Manifest and the High Pay Centre, it is not easy to see the value of a UK imitation of the Dodd-Frank provisions on publication of pay ratios. Adding further to public outrage is valuable only if there is clarity about the methods by which that outrage is to be addressed.

Here are some principles which should begin to provide such clarity:

- The key problem is not that senior and especially chief executive pay is insufficiently related to performance, but that it is too high;
- Bonus pay for senior executives should be exceptional, ex post, non formulaic, and normally in the form of deferred shares, securing some degree of alignment between the reward and the long-term success of the company. Reward not incentive should be the guideline;
- Stock options are appropriate for start-up companies which are stretched for cash and in which employees can appropriately (and necessarily) share the risks of the business with founders. Payment schemes with asymmetric properties (beneficiaries share profits but not losses) are not appropriate remuneration structures for listed companies;
- Remuneration consultants may be a useful source of information on pay levels at competitor companies. Remuneration policies are key signals of the values of the company and its desired culture and should be a matter for boards and executive management;
- No one company can easily shift from current norms in terms of remuneration quantum and norms. Initiative in changing the bonus culture must come from investors acting collectively with the strong support of government;
- Such government support should be expressed in general, not over-prescriptive terms. Regulation of pay is likely (as with much regulation of the financial sector) to lead to avoidance activity and a tendency for the limits of what is permissible to become the norm.

STC

# Martin White introduces Anthony Fitzsimmons as a new member and special adviser to STC

I met **Anthony Fizsimmons** many years ago at an insurance conference. I was presenting a paper on the human dynamics (which usually means how it goes wrong!) of the insurance business, which was intended to warn investors how the potential for self-delusion/wishful thinking, in the estimates of what the claims will eventually cost, means that insurance is often a really terrible industry to invest in!

Anthony started life studying engineering, like me, but became a lawyer and ultimately a partner in a City firm in London.

He found himself helping clients deal with major reputation-threatening problems and became interested in what the drivers really were – an analytical approach to risk management.

Anthony set up an organisation called Reputability, and there is masses of good stuff on the Reputability site – stuff which is absolutely relevant to shareholders who want to think like owners and to take an interest in how their companies operate.

Anthony was part of a team which authored quite a famous Cass Business School report entitled “Roads to Ruin”, a study of a selection of high-profile disasters. It is essential reading for shareholders. It turns out that pretty well everything that goes wrong with companies can be traced to failings and gaps in the board. Which leads to all sorts of interesting lines of enquiry at AGMs.

You can find the essentials of the Roads to Ruin study here. There is also a Reputability blog site which is full of gems. See some examples here and here. These discuss how and why companies get the wrong people as CEOs.

Fairly recently, Anthony and Derek Atkins, sadly now deceased, wrote a book entitled “Rethinking Reputational Risk: How to Manage the Risks that can Ruin Your Business, Your Reputation and You”. It’s about the human factors that lead seemingly sound organisations, including companies, to fail, to the great shock of leaders. It got its formal title because the publishers thought, perhaps correctly, that the title would help sell the book. It contains diagnoses of what goes wrong in companies but also includes practical suggestions for tackling the problems. Another really good book to read!

## A tribute to Peter Montagnon

Peter Montagnon very sadly died in 2019. In his early career he had been a journalist on the Lex column of the FT. But it was in his role heading up the ABI’s Investment Committee in the early years of UKSA that we had quite a lot of interaction with him in connection with particular problem companies. Our ability to speak up as individuals in AGMs was very useful, alongside the less public discussions that the investment institutions tended to have. Peter went on to have a role advising on corporate governance at the Financial Reporting Council, and he ended his career writing on corporate behaviour at the Institute of Business Ethics. His recommendations on executive pay were particularly fresh and insightful, based on a lifetime of deep thinking about the problems from different perspectives.

STC

# Martin White introduces Colm Fagan as a new member and special adviser to STC

**Colm Fagan** is a much more recent acquaintance than Anthony, but it turns out that we have links in common that go back many years.

I was looking at the online comments below an FT article on pensions and was struck by one particular contribution. Unlike most commenters on the online FT, Colm gives his name, so I was easily able to go to Colm's personal website, which was really interesting. www.colmfagan.ie

The site starts like this:

> "The aims of this website are:
> (i) to set out proposals for a new approach to Defined Contribution pensions and to muster support for that approach; and
> (ii) to demystify investing in ordinary shares and to make the world of investing accessible to people without specialised financial knowledge.
> I have strong views on both. Whether you agree or disagree with my views, I would really appreciate hearing from you. Write to me at colm@colmfagan.ie. I will get back to you as soon as possible."

This discovery was like striking gold!

So I wrote to Colm, explaining that we clearly have lots of interests in common, and sharing the presentation I gave on STC to an actuarial conference last June. Colm's response included the following:

"I've read your presentation to the ATRC conference, and agreed with practically every word."

"I ticked nearly every bullet point under the 8 questions at the end on STC."

I then learned that Colm had just joined UKSA with a view to contributing ideas to STC.

Colm is a past president of the Society of Actuaries in Ireland. But he likes to stress that he has no exaggerated ideas of his own importance! It also turns out that Colm used to know my first boss at Save and Prosper, Dick Squires, whom I liked hugely. Many years ago Colm also worked with Roy Colbran, who used to lead UKSA's policy work. Small world!

## How to get employee engagement without encouraging share price fixation and short-termism?

The Kay review was very critical of share options giving the wrong incentives. Peter Montagnon of Institute for Business Ethics recommended only awarding pay whose value was known at time of grant. Montagnon and others recommend helping employees to buy shares in the market, thus never diluting existing shareholders and having an explicit cost accounted for immediately. Then the shares have to be held until after leaving the company.

But engagement is what's wanted, not excessive concentration of risk that employees can't afford.

How best to achieve these principles across a company, for all employees? Could a trust for employees be set up, in which employees have some role in the governance?

STC

# Does the name Daniel Godfrey ring any bells?

On 6 October 2015 it was announced that Daniel Godfrey had been dismissed as Chief Executive of the Investment Association. The reason was that he had developed a set of principles that put the clients' interests ahead of those of the investment managers.

There is an article online by an interesting financial commentator and campaigner, Robin Powell, here. What struck Robin at the time was that the press didn't see it as a big story and considered it of little interest to the readers of the weekend money section. Writing one year later in 2016, Robin said, "I'm more convinced than I've ever been that Godfrey's removal from office will prove to be a defining moment in the history of UK asset management". He also said, "But, for me, nothing revealed more clearly the IA's attitude towards its customers than an interview given this week by Daniel Godfrey's successor, Chris Cummings, to FTfm." He then goes on to explain how that interview was about growth, especially international growth, of the industry, with little mention of the consumer.

One other person who has made a big stir in terms of cost transparency in the financial sector is Chris Sier. Another interesting post on Robin Powell's site, this time much more recent in April 2019, is here. Chris came to public attention when he was asked by the FCA to work with asset managers on a template for disclosing investment fees and charges. He's an ex-policeman, who is passionate about people understanding the long-term impact for savers of an additional 1% in costs per annum, and also about discovering what the overall expenses really are. Do have a look at the links mentioned here if you can – we'd be delighted to hear your thoughts!

STC

# Recommended reading

There are many good books for people who want to learn properly about investment, and to deepen their knowledge. Unfortunately, there seem to be even more which I would tend to think of as "get rich quick nonsense". I recently came across an interesting piece where John Kay talks about some books he would currently recommend. I found the link from John Kay's website here. This gives you a link to the actual interview. It's on a site called www.fivebooks.com. (I'm always recommending John's own books, and always include a slide on recommended reading when I give investment-related presentations outside UKSA).

The five books are in addition to John's own book "The long and the short of it". Personally I would always suggest that as well as buying books the free resource at https://www.berkshirehathaway.com/letters/letters.html is something you would be mad not to look at. The five recommended books are:

- A random walk down wall street, by Burton G Malkiel
- How to speak money, by John Lanchester
- The intelligent investor, by Benjamin Graham
- The Snowball – Warren Buffett and the business of life, by Alice Schroeder
- Good Strategy Bad Strategy: the difference and why it matters, by Richard Rumelt.

You can look at the article to see the discussion. But of these, the one that's a little bit of a surprise is "Good Strategy, Bad Strategy". Now a couple of years ago, I bought this book simply because I had seen John Kay quoted in the FT as saying that it's the only book on business strategy that he couldn't put down. And I can really second that – one of the best and more useful books that I have ever read. I must even confess to thinking about the principles set out in that book when working out how to develop Savers Take Control!

The last thing to mention is what John Kay says about whether people need to do their own investment thinking. What follows is quoted from the article: "Q: Who should be investing, in your view, given so many people don't? Who should be reading these investing books for beginners? A: Nowadays almost everyone. Defined benefit pension schemes are pretty much dying, so people have to provide for their own retirement in one way or another. Many people will be in pension schemes where they're responsible, effectively, for their own investment strategy. Previously they did not have to acquire this kind of knowledge; they now do and should."

# What does a corporate culture feel like when nobody worries about the share price or what profits are reported this quarter?

There is an easy answer to this: from my own experience, working in such a place where they want to know bad news – in fact suppressing bad news and failing to self-report mistakes are some of the most serious offences you can commit – is really satisfying and empowering. And you can get on happily trying to make the company successful.

But I don't believe this is the norm at all. Where you have a regime in which the senior people, and especially the chief executive, know that their pay, and even keeping the job, depends on not reporting bad news and on engineering a stream of good news to influence the share price or to make whatever performance metrics have been put into their super-complex pay package, this not only poisons the culture through the whole business but also prevents properly dispassionate long-term thinking.

This is where our "pay for performance" / "you have to pay masses to get the best people" ideas, together with regulatory imposition of a remuneration committee regime that focuses on where their chief executive is in the pecking order, have got us to.

The current regime either selects the wrong people as chief executives or selects the right people and then almost forces them to be greedy and short-termist. For example, it appears that if a prospective chief executive doesn't ask for a huge package, the remuneration committee and the non-execs are likely to deduce that he/she is not serious or credible enough.

Let's finish with Peter Montagnon's prescriptions on pay from the Institute of Business Ethics:

> *"The executive remuneration system is seriously discredited and needs substantial reform. This will not be achieved simply by the introduction of another binding vote;*
>
> *Legislation and regulation around executive pay should be repealed and replaced with new rules based around a simple principle that the only permissible form of remuneration is one which can be objectively valued at the time of delivery. This means restoring cash as the essential currency. However, executive directors should be required to spend an agreed portion of this cash on shares held for the long term even for a period after they have left the company;*
>
> *One simple binding vote could then be held at each annual meeting under which the shareholders would agree the size of any salary increase and bonus. These would only become effective after the annual meeting;*
>
> *Where the bonuses paid to executive directors exceed a given proportion, say 25% of salary, then all employees should automatically be eligible for a bonus in the same proportion of salary as that paid to the chief executive."*

There is absolutely no doubt that a radical reform is needed. And it really is up to people like us to push for this. Pretty well everyone in the establishment, including the fund management world, is simply too conflicted. The "establishment", whilst powerful, is made up of relatively few people. A reform of corporate culture would massively benefit society as a whole, and top pay is the essential intervention to help make this happen.

Peter Montagnon will be sorely missed. He was a good friend to UKSA; we used to work with him some years ago on individual company situations when he headed the ABI investment committee.

# CURRENT UKSA EVENTS

**A photo ID is requested. Please bring it with you!**

## Meeting with Vodafone plc – Friday 21 February 2020

| | |
|---|---|
| **Location** | **1 Kingdom Street, London W2 6BY** |
| **Start** | **11:00 (assemble 10:00 onwards for teas/coffees/pastries)** |
| **Room capacity** | **30** |
| **Company contact** | **Victoria Garnham (Janette McGowan)** |
| **Group leader** | **Nick Steiner 020 8874 0977 n.steiner@btinternet.com** |

## Meeting with GlaxoSmithKline plc – Tuesday 25 February 2020

| | |
|---|---|
| **Location** | **980 Great West Road, Brentford, Middlesex, TW8 9GS** |
| **Start** | **17:15** |
| **Room capacity** | **10 for UKSA** |
| **Company contact** | **Harry Clementson, IR Manager** |
| **Group leader** | **Mike Dennis - ShareSoc** |

## Meetings of UKSA Croydon & Purley Group

| | |
|---|---|
| **Location** | **Spread Eagle, High Street, Croydon CRO 1QD Meetings second Tuesday monthly**<br>**Starts at 11:30 with coffee from 11:00 Chairman: Harry Braund harrycb@gmail.com** |

# UKSA BRANCHES – If no contact name or number is given, please contact UKSA office

| Branch name | Leader | Administration | Main purpose | Description |
|---|---|---|---|---|
| **London & South East Region** | Harry Braund<br>020 8680 5872<br>harrycb@ gmail.com | Andrew Girvan<br>020 8788 1665<br>agirvan247@btinternet.com | To co-ordinate activities in London and the South-East | Meetings in Croydon three times a year |
| **London company visits** | Nick Steiner | Individual meeting organisers | To arrange private meetings with companies | 20/30 meetings per year individually arranged |
| **Specialist company visits** | Adrian Phillips | Under review | To arrange and/or participate in events in conjunction with investor service companies | Meetings with small-company management, for experienced investors only |
| **Croydon & Purley** | Harry Braund<br>020 8680 5872<br>harrycb@gmail.com | Tony Birks<br>01322 669120<br>ahbirks@btinternet.com | Social meetings to discuss investment issues | Meetings in Croydon monthly |
| **South West** | Peter Wilson<br>01453 834486<br>07712 591032 | Peter Wilson<br>01453 834486<br>07712 591032 | To arrange and develop activities for members in the region | Company visits and social events as arranged |
| **North East** | Brian Peart<br>01388 488419 | Julian Mole<br>07870 890973<br>julian.mole@ btinternet.com | To arrange and develop activities for members in the region | Company visits and social events as arranged |
| **North West** | Julian Mole<br>07870 890973<br>julian.mole@ btinternet.com | Julian Mole<br>07870 890973<br>julian.mole@ btinternet.com | To arrange and develop activities for members in the region | Company visits and social events as arranged |
| **Northern Rock Small Shareholders Action Group** | Dennis Grainger<br>nrssag@uksa.org.uk | Dennis Grainger<br>nrssag@uksa.org.uk | Pursuing compensation for small shareholders affected by NR's collapse | Lobbying and awareness-raising activities |